

Message Text

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ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-02 PA-03

PRS-01 USIA-12 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 RSR-01 /151 W

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R 102130Z JUL 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 409

C O N F I D E N T I A L LA PAZ 4164

E.O. 11652: GDS.

TAGS: EFIN, EGEN, EAID, BL.

SUBJ: GOB FINANCES.

REFS: (A) STATE 130700; (B) LA PAZ 3978; (C) LA PAZ 4064.

1. RECHECKING WITH KREIS, WE FIND \$B 80 MILLION NET FOR CREDITO AUTOMATICO WAS NET REDUCTION IN FLOATING DEBT (RATHER THAN INCREASE AS INDICATED PARAGRAPH 1 REF B) AND INCLUDED WITH OTHER ITEMS TO PRODUCE ORIGINAL NEGATIVE \$B46.4 MILLION SHOWN IN TABLE UNDER "OTHER INTERNAL FINANCING". THUS, NEGATIVE \$B80 MILLION WAS BALANCE OF THEN ESTIMATED \$B 150 MILLION IN 1973 PAYMENTS ON 1972 EXPENDITURES AND \$B 70 MILLION CARRYOVER OF 1973 EXPENDITURES TO 1974. SITUATION NOW VASTLY DIFFERENT. WE THEREFORE WISH CORRECT PARAGRAPH 1 REF B TO INCLUDE ONLY \$B 10 MILLION NET INCREASE FLOATING DEBT AS GOB ACTUALLY PAID ABOUT \$B 160 MILLION IN 1973 ON 1972 EXPENDITURES AND WE BELIEVE MAXIMUM POSSIBLE CARRYOVER 1973 EXPENDITURES TO 1974 ABOUT \$B 170 MILLION. THUS, \$B 625.5 MILLION UNFINANCED GAP COULD BE REDUCED ON "EXPENDITURE SIDE" BT 1) ONLY \$B 10 MILLION NET (OR \$B 170 MILLION GROSS) USE CREDITO AUTOMATICO; AND 2) COMPRESSION OF PROJECTED EXPENDITURES BY \$B 100 MILLION TO REDUCE GAP TO \$B 542.5 MILLION.

2. RE PARA 2(B) OF REF A, WE AGREE \$B 95 MILLION RECURSOS PROPIOS IS
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WASHED OUT BY OFFSETTING FIGURE IN INVESTMENT EXPENDITURES. WE DID

NOT COUNT IT AS FINANCING ITEM IN REF B.

3. WE CERTAINLY HOPE IBRD IS RIGHT ABOUT PROSPECTIVE GOB BORROWING FROM CENTRAL BANK. THEY UNDOUBTEDLY AWARE, HOWEVER, THAT SUCH BORROWING WAS ONLY \$B 135.8 MILLION AT END MAY 1972 BUT GRE TO \$B 480 MILLION BY END OF YEAR DESPITE OCTOBER MEASURES EXTRA-ORDINARY EXPENDITURES IN SECOND HALF 1973 ARE (IN MILLIONS OF PESOS): BONO PATRIOTICO (115), FLOUR SUBSIDY (90), INTEREST SUBSIDY (50), DEFENSE DEBT PAYMENTS IN SUPPLEMENTARY BUDGET (86), OTHER EXPENDITURES IN SUPPLEMENTARY (180).

4. INCREASE IN IMPORT TAX MENTIONED PARA 1 REF B SHOULD INCREASE CUSTOMS TAXES IN 1973 FROM \$B 540 MILLION BY ABOUT \$B 114 MILLION TO ABOUT \$B 654 MILLION. WE RELUCTANT TO ACCEPT FURTHER REFINEMENT BASED ON RISING IMPORTS DUE FISCAL DEFICIT FOR FOLLOWING REASONS: (A) OUR EXPRESSION BALANCE OF PAYMENTS IMPACT OF DEFICIT FINANCING IN TERMS IMPORTS WAS SHORTHAND FOR OUTFLOW CONSISTING OF MIX OF IMPORTS, CAPITAL FLIGHT, SPECULATION WHICH CAN VARY GREATLY IN COMPOSITION AND TIMING DEPENDING ON ATMOSPHERICS; (B) CONTRABAND LIKELY TO INCREASE; AND (C) WE UNDERSTAND IMPORT TAX WAIVERS MAY INCREASE DUE PRESSURES INTEREST GROUPS.

5. PROJECTION FOR 1974 AS FOLLOWS (IN MILLIONS OF PESOS); CURRENT REVENUE 2,592, EXISTING TAXES 2,135, INTERNAL REVENUE 857, CUSTOMS TAXES 572 (BUT WITH RECENT CHANGE IN EFFECTIVE IMPORT TAX RATE SHOULD BE ADJUSTED UP TO ABOUT 812), EXPORT REGALIAS 120, 1.6 PERCENT ON EXCHANGE SALES 99, 9 PERCENT ON COMMERCIAL CREDITS 40, POSTAL AND COMMUNICATIONS FEES 10, CONSULAR FEES 16, YPFB TRANSFERS 211, OTHER REVENUE 210, NEW TAX MEASURES 457, AD VALOREM EXPORT TAX 357, OTHER 100, CURRENT EXPENDITURES 3,121, WAGES AND SALARIES 1,423, MILIARY OUTLAYS 550, GOODS AND SERVICES 315, CURRENT TRANSFERS 6#/, TO PRIVAT E SECTOR 432, TO PUBLIC SECTOR 207, TO INTERATIONAL ORGANIZATIONS 20, INTEREST PAYMENTS 174, CURRENT ACCOUNT DEFICIT 529, OTHER REVENUE 11, INVESTMENT EXPENITURE 1,542.5, OVERALL DEFICIT 2,060.5. BELIEVE PROBLEM DUE ADDING ERROR IN CURRENT TRANSFERS WHICH ONE OF US COPIED AT 539 RATHER THAN 659. IF WE ASSUMEENET EXTERNAL FINANCING SAME AS IN 1973 (\$B 1,183 MILLION) FISCAL GAP WOULD BE \$B 877.5 MILLION RATHE R

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THAN \$B 703.5 MILLION REPORTED REF B.

6. SUMMING UP. FISCAL GAP FOR 1973 OF \$B 652.5 CAN NOW BE REDUCED BY \$B 10 MILLION NET INCREASE IN FLOATING DEBT AND \$B 114 MILLION INCREASE IN CUSTOMS REVENUE DUE IMPORT TAX RATE CHANGE, LEAVING GAP OF \$B 528.5 MILLION. THIS GAP COULD BE FURTHER REDUCED, WITH GOB EFFORT BY ABOUT \$B 100 MILLION ON EXPENITURE SIDE AND (INCREASINGLY REMOTE) \$B 100 MILLION INCREASE

ON REVENUE SIDE WITHOUT, WE BELIEVE, UNDUE RISK TO
POLITICAL STABILITY. IMPORT TAX INCREASE MEANS REDUCTION OF 1974
FISCAL GAP TO \$B 637.5 MILLION. WE BELIEVE EVEN THIS HIGH LEVEL CAN
BE BROUGHT DOWN TO SAFE RANGE BY COMBINATION OF (A) MORE INTENSE GOB
EXPENDITURE CONTROL; (B) IMPLEMENTATION TAX REFORM AND ADMINISTRATION
PACKAGE; AND (C) RESTORATION SOME SPECIAL TAXES WHERE WORLD PRICES
HAVE RISEN MARKEDLY. IMPORTANT ELEMENT IN ALL THIS IS TO SEEK ADEQUATE
FISCAL MEASURE WHILE PREVENTING OR MODERATING ALARM IN BUSINESS
COMMUNITY. ALL PRECEDING IS VERY LARGELY BASED ON IMF REP'S
ANALYSIS AND DATA.

7. NO NEW INFO ON FOREIGN BANK LOANS FOR GOB SINCE LA PAZ 4064.
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